http://www.bayeconfor.org/pdf/SFO-Virgin-Nov22-FINAL.PDF

Economic Impacts of Competitive Air Service at San Francisco International Airport

INSTITUTE OF GOVERNMENTAL STUDIES LIBRARY
FEB 22 2005
UNIVERSITY OF CALIFORNIA

Bay Area Economic Forum

November 2004

BAY AREA COUNCIL

BAY AREA ECONOMIC FORUM

A Partnership of the Association of Bay Area Governments and the Bay Area Council

Association of Bay Area Governments

Economic Impacts of Competitive Air Service At San Francisco International Airport

After a four-year downturn, air traffic at San Francisco International Airport is growing. While still below its peak in 1999 - 2000, passenger volume has increased by 16% in 2004; international traffic has grown 16.6%, and domestic traffic 15.8%. Flight operations are up more than 7%. Airline service is also expanding, particularly by low fare carriers: Virgin America has selected San Francisco as its operational headquarters, and Ted (operated by United Airlines), AirTran and Westjet (Canada's leading low fare carrier) have initiated service to SFO. Direct international routes have recently been opened by United Airlines to Beijing and by Air New Zealand to Auckland, and Air Iceland will begin Bay Area service in 2005. New service is also planned by United to Nagoya (Japan) and Ho Chi Minh City (Vietnam), and by Ted to several destinations in Mexico.

Airports are a critical economic engine for cities and the metropolitan regions they serve. They are portals that help residents stay in touch with distant friends and family, and enable their leisure travel. They also serve as a vital medium for business travel and cargo transport, enabling businesses to engage in statewide, national and global commerce. The benefits of personal contact are not easily quantified, but business travel, tourism and the operations of airports with their ancillary services can be measured. While this doesn't fully reflect the important role played by airports in a region, or their importance to a city or region's economic competitiveness, it can indicate in concrete terms the contribution of airports to a local or regional economy.

Analyzing Economic Impacts

Measurable areas of economic impact include:

Employment

Direct employment: Jobs directly generated by airport activity (usually located on-site);

Induced employment: Jobs created by the spending of individuals whose employment is tied to airport activity (for example, through wages expended in the local economy on goods and services such as food and housing);

Indirect employment: Jobs generated by the purchase of goods and services by businesses that depend on airport activity (such as caterers, janitorial and security firms, and limousine services).

Personal Income

This includes salaries, wages and other income paid to individuals through direct, induced and indirect employment.

Business Revenues

These are revenues generated by firms that supply services to the airport, such as passenger, cargo and ground support. Those revenues are then spent locally, to hire employees or to purchase goods and services.

Taxes

Airport-related cash flows generate taxes paid by individuals and firms to state, county and municipal governments, and direct payments by airports to their local governments.

Airport-Generated and Visitor-Generated Activity

Economic impacts also can be identified as either airport-generated or visitor-generated.

Airport-generated activity includes sectors that are directly related to airport operations: airline/airport services (e.g., skycaps, janitorial, security, retail tenants), freight (e.g., air cargo and U.S. mail, freight forwarding and cargo-related trucking), passenger ground transportation (including all modes of transportation to and from the airport such as car rentals, airport buses, shuttles, hotel vans, and reservations), and contract services (such as retail suppliers, engineering and consulting).

Visitor-related activity includes both business and leisure travelers. Out-of-town visitors purchase lodging, food and entertainment away from the airport, creating jobs, personal income, business revenue and taxes at hotels, restaurants, retail stores and tourist sites.

Economic Impacts of Expanding Airline Service at SFO

When airlines launch or expand service to a region such as the Bay Area, the economic benefits can be significant. For example, assuming that a new domestic airline service is established at SFO with 10 flights per day (70 flights per week), using medium-sized long-range aircraft with a seating capacity of 150, this would equate to a potential 546,000 passengers annually; 140 flights per week would equate to 1,092,000 passengers. Assuming that 58% of travelers are non-residents, 25% are connecting, 41% of non-connectors and non-residents are business travelers, and 59% of non-connectors and non-residents are leisure travelers, the most recent economic model developed by the national transportation consulting firm Martin Associates (1) indicates the following impacts:

Employment

At 70 flights per week, a new domestic service can be expected to generate up to 3,891 jobs, 1,692 of which would be airport-site generated and 2,199 would be associated with the visitor industry.

At 140 flights per week, a new domestic service can be expected to generate up to 7,783 jobs, of which 3,385 would be airport-site generated and 4,398 would be associated with the visitor industry.

Wages and Salaries

At 70 flights per week, a new domestic service can be expected to generate up to $146,905,000 in annual wage and salary income, of which $94,917,000 would be airport-site generated, and $51,988,000 would be associated with the visitor industry.

At 140 flights per week, a new domestic service can be expected to generate up to $293,810,000 in annual wage and salary income, of which $189,834,000 would be airport-site related, and $103,976,000 would be associated with the visitor industry.

Business Revenue

At 70 flights per week, a new domestic service can be expected to generate up to $241,077,000 in annual business revenue, of which $161,195,000 would be airport-site related, and $79,882,000 would be associated with the visitor industry.

At 140 flights per week, a new domestic service can be expected to generate up to $482,154,000 in annual business revenue, of which $322,390,000 would be airport-site related, and $159,764,000 would be associated with the visitor industry.

70 flights/week	Airport-Site Generated	Visitor Industry	TOTAL
JOBS			
DIRECT	1,145	1,455	2,600
INDUCED	426	744	1,170
INDIRECT	122		122
TOTAL	**1,693**	**2,199**	**3,892**
WAGE AND SALARY INCOME ($THOUSANDS)			
DIRECT	$45,355	$26,031	$71,385
INDUCED	45,228	25,958	71,186
INDIRECT	4,334		4,334
TOTAL	**$94,917**	**$51,988**	**$146,905**
BUSINESS REVENUE ($THOUSANDS)	$161,195	$79,882	$241,077
STATE AND LOCAL TAXES ($THOUSANDS)	$10,400	$13,513	$23,913

State and Local Taxes

At 70 flights per week, a new domestic service can be expected to generate up to $23,913,000 annually in state and local taxes, of which $10,400,000 would be airport-site related, and $13,513,000 would be associated with the visitor industry.

At 140 flights per week, a new domestic service can be expected to generate up to $47,826,000 annually in state and local taxes, of which $20,800,000 would be airport-site related, and $27,027 would be associated with the visitor industry.

140 Flights per Week	Airport-Site Generated	Visitor Industry	TOTAL
JOBS			
DIRECT	2,290	2,910	5,199
INDUCED	851	1,488	2,340
INDIRECT	244		244
TOTAL	3,385	4,398	7,783
WAGE AND SALARY INCOME ($THOUSANDS)			
DIRECT	$90,710	$52,061	$142,771
INDUCED	$90,456	$51,915	$142,371
INDIRECT	$8,669		$8,669
TOTAL	$189,834	$103,976	$293,810
BUSINESS REVENUE ($THOUSANDS)	$322,390	$159,764	$482,154
STATE AND LOCAL TAXES ($THOUSANDS)	$20,800	$27,027	$47,826

Economic Benefits of Airline Competition

Air access is an advantage in regional and global competition. This is particularly the case for knowledge-based economies such as the Bay Area, which depend heavily on the exchange of information and human capital, and on the development of national and international business networks. Cities and regions benefit when businesses can conveniently and cost-effectively transport executives and staff, and access clients. The availability of multiple options for price and time of travel, provided by competing carriers, enhances a city or region's competitive edge for business attraction and retention. Cities whose airports lack competitive services and extensive route networks know this well.

Incremental additions to air service - the addition of new routes and flights at a given facility – can magnify these competitive benefits for the specific cities/regions where the new service is destined or originated. For example, additional service between San Francisco and New York will support increased business and tourism between those cities as well as their surrounding regions.

Benefits of Competitive Service by Low-Fare Carriers

Any new increment of service is likely to have this competitive effect. Where the new service is provided by a low-fare carrier, however, it brings a further element of competition to the local market, delivering substantial consumer benefits through downward pressure on ticket prices. According to the U.S. Department of Transportation, in markets where market power is exercised by a hub carrier, passengers on average pay 41% more than counterparts flying in hub markets where there is low-fare competition. Passengers in short-haul air markets without low-fare competitors pay an

average of 54% more than passengers in comparable markets with low-fare competitors. Even where a low-fare carrier serves only one of a number of airports within a region, its competitive presence will tend to influence fares at airports it doesn't serve. (2)

With the introduction of low-fare competition, the number of passengers traveling also increases significantly. In the Buffalo-Atlanta market, for example, the introduction of service by low-cost carrier AirTran cut average fares by 36%, from $185 to $119, and increased the number of passengers by 65%. In another example, Detroit and Minneapolis are both Northwest Airlines hubs; however, average fares from St. Louis to Minneapolis are three times those from St. Louis to Detroit (a comparable distance), where Southwest offers competitive service. (3)

An August 20, 2004 comparison of round trip costs on major air routes serving the Bay Area confirms the significant impacts of low-fare competition on ticket prices.

- Continental Airlines: SFO, Oakland and San Jose to Houston, $1,013.70; Low fare competition: Southwest Airlines, Oakland-Houston $632.00;
- Delta Airlines: SFO-Salt Lake City $532.00, Oakland-Salt Lake City $407.20, San Jose-Salt Lake City $407.20; Low fare competition: Southwest Airlines, Oakland-Salt Lake City $278.20;
- Northwest Airlines: SFO-Minneapolis $2080.20, San Jose-Minneapolis $2080.20; Low fare competition: SunCountry $408.20;
- American Airlines: SFO-Chicago $763.30, San Jose-Chicago $1038.00; low fare competition: ATA, SFO-Chicago (Midway), $342.70;
- United Airlines: SFO-Washington, DC (Dulles) $1524.19, Oakland-Washington, DC (Dulles) $608.20, San Jose-Washington, DC (Dulles) $1441.29; low fare competition: Jet Blue, Oakland-Dulles $372.20, Southwest, San Jose-Baltimore $602.20. (4)

With California and the Bay Area still recovering from the economic downturn that followed the technology market collapse in 2000, and with the growing success of low fare carriers since then, their price advantages should continue to attract an increasing share of the airline passenger market. Airports, cities and regions that capture that traffic will benefit.

Business Travel Priorities

Previous Bay Area Economic Forum surveys (5) suggest that business travelers have the following priorities: frequent domestic and international service; non-stop domestic and international flights; concentration of flights to and from particular markets during peak hours; ease of rush hour commute to and from the airport; and lower relative ticket costs. Businesses indicated that they want:

- a wide choice of competitive carriers, with flights available throughout the day;
- a choice of non-stop domestic and international flights;
- competition on popular routes in order to lower fares;
- short travel time to and from the airport; and
- reliable schedules with minimal delays.

Conventions and smaller corporate and industry meetings constitute a distinct segment of the business travel market. Corporate event planners consider accessibility – the choice of flights into and out of a city and the availability of non-stop flights – very important in choosing an event or conference site. Accessibility can also influence event participation, as executives and their travel planners consider the timing and convenience of their arrangements. This is a particularly important consideration for San Francisco, with its large convention and visitor industry.

Expanding airline service at SFO will address many of the priorities of business travelers and convention planners, improving the Bay Area's competitiveness as a national and international business center, and as a tourist and convention destination.

Conclusion

Additional carriers and routes at SFO can be expected to generate significant economic benefits for San Francisco and the Bay Area, measured by jobs, personal income, business revenues and taxes. New routes and carriers will also expand consumer options and stimulate competition in the local air service market, meeting key objectives of important segments of the region's travel community. The introduction of new service by low-fare competitors in particular will reduce air travel costs. By increasing San Francisco and the Bay Area's national and global connectivity for both business and leisure travel, expanding air service can be expected to have a positive impact on the Bay Area's quality of life and its economic competitiveness.

Growing air traffic at SFO is a positive sign for the recovery of the Bay Area economy. It is important that, as demand for travel grows, planning and investment in airfield technology and infrastructure also continue, to ensure that adequate capacity is available to accommodate future passenger and cargo needs.

Footnotes

(1) The Martin Associates model, on which the estimates in this report are based, uses direct interviews and surveys, published airport statistics, and local economic development data to measure economic impacts.

(2) *Dominated Hub Fares,* Domestic Aviation Competition Series, Office of the Assistant Secretary for Aviation and International Affairs, U.S. Department of Transportation, January 2001, pp. 12-13.

(3) Ibid, pp. 3, 8.

(4) San Francisco Airport Commission, Survey 15, August 19, 2004.

(5) *Air Transport and the Bay Area Economy – Phase 2: A Baseline Economic Impact Report on Bay Area International Airports and Their relation to Jobs, the Economy and Global Competitiveness*, Bay Area Economic Forum, 2001, pp. 10, 27-31.

***

U.C. BERKELEY LIBRARIES
C101696067

BAY AREA ECONOMIC FORUM

A Partnership of the Association of Bay Area Governments and the Bay Area Council

The Bay Area Economic Forum, a partnership of business, government, university, labor and community leaders sponsored by the Bay Area Council and the Association of Bay Area Governments, develops research and implements programs to strengthen the region's competitive economy and quality of life.

200 Pine Street, Suite 300
San Francisco, CA 94104
(415) 981-7117

Chairman: Lenny Mendonca
President: R. Sean Randolph

PHONE: (415) 981-7117
FAX: (415) 981-6408
E-MAIL: info@bayeconfor.org
WEBSITE: http://www.bayeconfor.org

Bay Area Economic Forum